1919

Economic Conditions
Governmental Finance
United States Securities

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European Conditions.

THE situation in Eastern Europe is more chaotic and unpromising than ever. The provisional government of Hungary had cherished the hope that that country would escape the fate of territorial dismemberment decreed for Austria, and the prospective loss of territory and population to the new national units planned on all sides of Hungary has been a bitter disappointment. Acting either in desperation or resentment, the government, headed by Count Karolyi, relinquished its authority to the Bolshevist element, which was the only party organized to assume the governmental functions. The attitude taken seems to be that of hostility to the Allied powers and cooperation with the Bolshevist government of Russia and the Ukraine. In short it is a forward move in the policy of the latter to spread over Europe. The Ukraine for the most part apparently has succumbed, and the development in Hungary places Rumania in a critical situation and brings greater pressure upon Poland.

The situation is increasingly threatening because all elements opposed to the developing policies of the Peace Conference show an inclination to join the Bolshevist regime, probably in the hope that a general state of disorder will defeat the plans of the Conference, which is the dominant motive at this time. This is the attitude of German Austria, which is all there is left of Austria and which wishes to be joined to Germany.

In Germany the government has put down the extreme revolutionary element with a strong hand, but industrial and social conditions are in a desperate state. Great numbers of people are without employment or food, the country is destitute of supplies or raw materials, the people are dispairing or resentful, the expenditures of the government are heavy and sources of income paralyzed. Steps are being taken to collect foreign securities owned in the country for sale or pledge abroad for the purpose of buying food and materials for the industries. Although armed resistance to the terms of peace is impossible, there is no little talk that the German government may decline to accept the terms of peace if they are considered so severe that the economic life of the country will be unable to function.

The crying need of all Europe is for food and employment for the people. Revolution and disorder naturally result where masses are idle, hungry and hopeless.

The Peace Conference.

The proceedings of the Peace Conference are slow, but that is inevitable where so many parties have a voice and the interests are so important and varied. It is entirely natural that there should be differences of opinion about the policy to be pursued. The representatives of France feel the pressing necessity not only for ample reparation for the devastated districts and the injury done to their industries, but some relief from the burden of debt and some protection against Germany in the future. If German Austria is added to Germany they see their traditional enemy as strong as ever, and perhaps dominant in Russia, formerly their ally. They cannot but ask whether both Great Britain and the United States will always be at the side of France in time of need. What circumstances would bring the armies of the United States across the ocean again? Will not Germany carefully avoid provoking that visitation the next time? In short France naturally feels that when the Peace Conference is over she will be left almost alone on the continent facing a revengeful and powerful enemy.

And yet what is to be done with the German people, even giving these apprehensions full weight? They are there, about 70,000,000 of them, in the heart of Europe and they can be neither exterminated nor removed. They cannot be even divided, unless the division is of their own making, for if they are united in spirit the artificial lines which outsiders may draw between them will be of small consequence. After all the natural fears are allowed for, can any better provision for the future be made now than a peace which respects national ideals and racial affinities and which imposes no heavy burdens upon future generations; in short whose terms do not in themselves perpetuate animosities?

The whole European situation is so interrelated, and so dependent upon the intangible elements, that there is danger that the mere agreement, or assent, to a treaty of peace representing many compromises will settle nothing conclusively. Time is necessary to bring quiet and order to Europe, and there will have to be a strong hand of authority over the situation in the meantime. Europe trembles upon the verge of anarchy, of a general dissolution of society. Unquestionably the presence of the United States in the councils there is a great stabilizing influence. It would be a calamity to Europe and to the world, an abandonment of all that we have accomplished, for this country to withdraw from these councils as soon as the treaty is signed. It cannot be seriously contemplated, and from this fact springs the argument for a League of Nations. There is room for much difference of opinion over the terms of any such agreement, and we shall not enter that discussion; the more important points in controversy seem to be in the way of settlement; but the main consideration is beyond debate. The United States is already involved in a situation from which it cannot honorably or with a proper regard for its own vital interests withdraw.

Business Conditions.

The general business situation is more hopeful than it has been since the armistice was signed. The winter season has been passed without the amount of unemployment at one time feared, and outdoors work now opening up will take care of an army of men. The farms are short of labor all over the country and building operations, although held in check by high costs, are showing more activity than for the year past.

The meeting of steel producers held in Washington at the invitation of Secretary Redfield resulted in an agreement for a further reduction of prices, the aggregate since the armistice being now from $12 to $15 per ton. The producers are emphatic in saying that this is all the industry can stand without a reduction of wages, which it is desired to avoid until living costs are lower. The total wage increases in the steel industry upon finished material, from the beginning of the war to its close, are calculated at 134 per cent. and of the total cost of the product 85 per cent. is calculated to be wages.

Reports from the country uniformly tell of good trade. In the dry goods trade it is said that goods bought at the top prices of last year have been worked off by both jobbers and retailers, and that the situation is in good shape. The cotton goods market has been stabilized by buying to keep up stocks, and although buyers are not laying in large stocks confidence is restored for the present. Prices have recovered a little from the low points touched in January. The mills have booked considerable business, and at some of the centers have lengthened their running schedules. The situation in woolen goods is about the same as in cotton. The price reductions made by the leading producers appear to satisfy the trade, which is taking them freely for next fall's retail distribution. It is generally recognized that prices are as low as they can be without wage reductions, and these are not expected during the present season.

Labor and Living Costs.

The general trade and labor situation justifies the views heretofore in these columns, that there will be no headlong decline back to the wage and price levels of before the war, but that the readjustment will take place gradually, following upon lower prices for foodstuffs. We cannot tell when foodstuffs will fall, but it is now evident that the facts did not justify the predictions which were common in January that their prices would come down rapidly if government restrictions were withdrawn. They were withdrawn from hogs and the price went up $2.00 per hundred weight, with a similar rise in the price of corn. May corn has sold at Chicago during the past week above $1.50 per bushel, the highest prices of the year. The movement of provisions to Europe has been very heavy, but not nearly heavy enough to meet the European demand. Thirty German ships are on the way over here for food, and they can take only a small installment of what is wanted. All Europe is desperately in need of food.

It is not so certain that any great reduction in food prices will come even with the next harvest. America's crop of wheat promises to be the largest on record, but there is great uncertainty about production in Europe, particularly Russia, and America is the dependence.

The labor situation will be affected by an exodus of men to Europe as soon as passage can be had. The steamship offices are swamped with applications for tickets and for agencies for the sale of tickets. The latter invariably tell of thousands of foreign-born residents who are wanting to return to their former homes to look after relatives or property interests in the countries that have suffered by the war.

The Cotton Crop.

The movement to restrict the acreage planted to cotton this spring is being aggressively pushed, and its advocates claim it will have an important degree of success. The sudden change of front on the part of representatives of the cotton-growers is remarkable. Up to the signing of the armistice they were confident that there would be a great demand for cotton after the war, and their reasoning appeared to be good. Although the war is over the blockade upon Central Europe has not been raised, the cotton factories of Belgium and France have not yet been put in condition for operations, and the trade of the world is not yet moving normally. In short, none of the conditions necessary to give free play to

the world's demand for cotton have as yet been realized. It seems too early to say that all the expectations of world shortage were mistaken. The available stock of cotton is not above the average of normal years in the past, and with trade reestablished over the world it should be worked off rapidly. That the world's supply of cotton goods is low and its needs greater than ever before is something beyond controversy, and even though trade conditions at the moment are bad it seems a very doubtful policy to arbitrarily reduce the production of a primary necessity.

On the other hand the proposal for the South to stop devoting its agriculture wholly to cotton is unquestionably sound. The South at least should grow enough of the feed and food crops to supply its own wants. It is profligate management for a southern farmer to buy these supplies from the north, paying freight and middlemen's charges when his own soil will grow them as cheaply as they can be produced elsewhere. The South will be well-advised to adopt a well-balanced policy of production and rotation and adhere to it, but there is danger in attempts to regulate the world's markets.

Trade Conferences.

The cooperative movement developed in industry during the war under the guidance and authority of the government is not going to be without permanent effects. Although the government in most lines has quit the exercise of price-fixing authority it is endeavoring in many fields to bring about a closer cooperation between competing interests, even to the point of agreement upon prices which, while nominally maximum figures, are tacitly understood to form the actual price-level. The meeting of the iron and steel producers is the most notable instance. This meeting held under the auspices of the Department of Commerce was practically a repetition of one of the famous Gary dinners, which figured conspicuously in the government's suit for the dissolution of the United States Steel Corporation. Those dinners were held at a critical time in the industry, when changes in the price-level were under consideration and were held with the purpose of getting a concensus of opinion and securing a common policy. Whether such meetings are inimical to the public interest or not depends upon the policy that is adopted. The success of the policy also depends upon whether it is reasonable and closely adapted to business conditions. Secretary Redfield urged this conference upon the ground that it would promote a revival of industry to have a prompt and liberal reduction of prices agreed upon, and that if a fair basis could be reached, likely to be permanent for some time, the government would come into the market as a buyer for various uses.

Similar negotiations are under way in the coal, lumber, building material and other trades, and the development is an exceedingly interesting one.

Low and High Cost Producers.

In every such situation the high-cost producers are likely to be a more important factor than they ought to be, but the public is always tender toward them because they are the small producers and making small profits. The public, therefore, regards them as entitled to particular consideration, although, in fact, the public interest requires that they be eliminated from the industry as soon as possible. They hold up prices, not alone on their own product, but on the entire product. If they were shut up, and competition was confined to the larger and more efficient producers the level of prices would be lower. The big producers would subject themselves to adverse public sentiment and to prosecution if they undersold and closed out their small competitors. The United States Steel Corporation has deliberately aimed to restrict its production to less than one-half of the total production of the country.

The United States Tariff Commission has issued in the last month a report on Costs of Production in the Sugar Industry, which presents a detailed study both in pre-war and war times of the cost of production of cane sugar in Cuba, Hawaii, Louisiana and Porto Rico, and of beet sugar in this country. An official summary of the report says:

> It is shown that in all of these regions the costs per ton of sugar vary greatly among individual producers and that therefore, as the price at which the sugar is sold is approximately uniform, some of the producers reap large profits while others barely make expenses or even manufacture at a loss. Omitting from discussion such obvious causes of these variations in cost as the difference in ability of managers and the vicissitudes of the seasons, two prominent and permanent causes are emphasized. First, sugar is essentially an agricultural product for which there is a strong and increasing demand and to meet this demand land of inferior productiveness must be cultivated. Second, there is shown to be a distinct and permanent economy in large-scale production. Admitting individual exceptions the big concerns are the low cost concerns and the small concerns are the high cost concerns.

This statement of fact by an official investigating body reads almost like an extract from the discussion of profits in the March Bulletin, to which we venture to refer the reader. It all has direct bearing upon the problem of how to revolutionize industry so that higher wages may be paid without having the cost follow the product directly to the consumer. The discussion has already gone far enough to show that the laboring man gains nothing by receiving higher wages at the front door if he must pay them all out at the back door for no more goods or comforts than he had before. There is nothing to the laboring classes in the victories of one union after another which impose higher living costs upon

the members of all unions. The only real gain is in the achievements which enable each class of workers to improve its condition without cost to the other workers, and this is accomplished by improving the means of production.

It is accomplished, not by discriminating against the efficient producers, restraining them and putting burdens upon them, but by encouraging them to put their profits back into the industry until the entire supply is afforded upon the low cost-level. There is always a chance for wage-earners to get more pay from an employer who is making profits, but none if the employer is making nothing. In fact the whole history of industry shows that large profits are only made where there are important differences in costs among the producers, and that the industries which pay high wages are those of high productive efficiency. In this connection we invite attention to the remarks of Mr. Robert Benson, a British banker, given elsewhere under the heading "British Investments."

Packers and Stock-Growers.

Another notable effort at getting together by interests that have been more or less at swords' points is that inaugurated by a meeting of the leading packers and live-stock interests. The substance of their agreement is that they will establish a Control Committee for the purpose of maintaining a better understanding and of adopting economical methods of production and of marketing from the live-stock grower to the consumer.

It is proposed that the Control Committee shall be composed of one representative from the Bureau of Markets of the Department of Agriculture, two from the National Live-Stock Exchange, and ten each from the packing companies and the live-stock growers' associations. All parties agree to co-operate by supplying information bearing upon the industry, the packers agreeing to open their books to a committee of public accountants employed by the Control Committee, and to give consideration to recommendations looking to improvements and economies in their operations. This looks like a practical move to take the packing business out of politics.

Banking Conditions.

Banking conditions have changed but little during the past month, but instead of further liquidation there has been an increase of loans. Total earning assets of the Federal reserve banks increased from $2,263,596,000 on February 21 to $2,343,425,000 on March 21, while total loans and investments of reporting member banks increased from $13,967,067,000 to $14,416,750,000. Payments amounting to over $1,000,000,000 as first installment of income and excess-profits taxes were responsible for this increase. Interest rates are practically unchanged.

Outstanding treasury certificates in anticipation of the Fifth Loan now aggregate nearly $5,000,000,000, in addition to which there remain outstanding certificates receivable for taxes in June to the amount of $685,000,000. Treasury disbursements are lower, but still large. The total for February, including loans to foreign governments, was $1,189,913,903, and for the first 24 days of March $1,060,941,736.

No further details of the Victory Loan offering have been given out, except that the terms of payment will be easier than upon previous loans. The Secretary of the Treasury has stated that this will be the last popular loan campaign. It is apparent that a vigorous effort must be made to overcome the natural decline in public interest and to accomplish a broad distribution. The advantages of tax exemption will be attractive to large taxpayers, but this class cannot take the loan. The general public must be rallied to respond once more and pay the cost of the job which the returning soldiers have done so well. The job is not completed and off our hands until it is paid for.

Foreign Trade and the Exchanges.

The foreign trade of the United States in the month of February last yielded another large balance in favor of this country, exports amounting to $588,000,000 against imports of $235,000,000 with a balance of $353,000,000. It is important to remember in connection with these figures from month to month that they represent trade only; interest and other credits and debits are not included. We have commented repeatedly upon this trade situation and the interest charges which are accruing in favor of this country, and endeavored to impress our readers with the warning that the conditions affecting our foreign trade were highly abnormal and artificial, and could not continue indefinitely. With payments running so heavily one way exchange rates were sustained only by governmental borrowing, which probably would have to come to an end when the peace treaty was signed if not before. Within the last ten days the governments of Great Britain, France and Italy have discontinued the policy of stabilizing rates for private payments, with the result that they have become demoralized to a grave extent. The pound sterling has declined to about $4.58 to $4.60. The French franc, which at par is worth 19.3 cents or about 5.18 to the dollar, is now 6 to the dollar. The Italian lire, nominally of the same value as the franc, is quoted at about 7.75 to the dollar, with but little doing. The Swiss franc, which has been at a premium, still holds that position, but is down to 5 to the dollar. The Spanish peseta, nominally worth 19.3 cents, but which has been as high as 28, the very sore spot in our exchange, is quoted at 20.2 cents. Copenhagen and Christiana are slightly below par and

Stockholm slightly above; Amsterdam practically at par. Japanese exchange, which has been at a premium of six to eight per cent., is down almost to par, and Buenos Aires has made a similar decline. The trend everywhere is in favor of the dollar. The fact that the dollar is no longer tied to the pound sterling helps the position of the former in the markets where it has been depressed. With the exchanges free everywhere all restrictions upon exports of gold from the United States might be removed, but it is too early to say that governmental interference is at an end.

The A, B, C of the Exchanges.

Foreign exchange is usually a puzzle to laymen, but while requiring an expert to understand all its ramifications the principles are simple enough for anybody. If the United States exports $300,000,000 worth of products to Canada and imports $300,000,000 worth from Canada, it is evident that these transactions balance and offset each other. The drafts which are drawn both ways will meet in the banks and clearing houses and cancel each other. Commodities, however, are not responsible for all of the payments made between the two countries; many of them are due to the movements of securities. The Canadian provinces and municipalities often borrow in this country, and private parties do the same. In such cases there is first a payment of principal from the United States to Canada and thereafter regular payments of interest from Canada to the United States, and finally re-payment of the principal. Then, again, Canadian investors frequently buy securities in the United States, from which proceed a flow of payments opposite to those caused by American investments in Canada. So long as the totals of the payments on all accounts each way are about equal it is evident that they practically settle themselves. No financing is necessary, and exchange rates represent only a small charge for the banking service.

Arbitrage Transactions.

When there is a balance either way the bankers of the debtor country may ship gold to settle the difference, or they may settle by means of exchange on another country. If, for instance, Canada should owe the United States but have a favorable balance with England, and if the United States should owe England, it would be advantageous all around for Canada to pay the United States by giving drafts on London. She would be collecting her credits and settling her debits at one stroke. This would be a three-cornered transaction, and more shifts than that are frequently made to avoid shipping gold. These roundabout settlements are known as "arbitrage" transactions, and in normal times are serviceable as tending to stabilize all the exchanges and hold them upon a common level.

It is to the advantage of the international bankers to accomplish settlements if possible without gold shipments, and to this end they usually establish foreign credits by borrowing when there is reason to believe that the balances will soon turn the other way. Foreign trade, however, runs into such large figures that if it is seriously unbalanced bankers cannot long stand in the breach without taking steps to restore the equilibrium. This is naturally accomplished by the fluctuations in exchange charges, as we shall see.

Our Exchanges Since 1914.

When the war broke out in 1914 the first effect was to lower the value of the dollar compared with the pound sterling and other foreign units. There was a rush on the part of European holders of American securities to sell them in this market, thus creating debits against this country, and at the same time the usual fall movement of our cotton and other products was checked by the fear of German raiders. American credits in London were exhausted, and sterling exchange went to a premium, as high as $7.00 being paid for the pound sterling, which compares with a par of $4.8665. The rate, however, soon declined to $5.00, which was still very high.

In about six months, when Great Britain began to buy war supplies heavily in this country, the balance on the account shifted over to our favor, and with the pound sterling at a discount there was an extra inducement for British holders of American securities to sell them in this market. They received, in addition to the New York price, the premium which New York exchange was commanding in London. Thus an Englishman who sold securities in New York was able to sell the credit to some other Englishman, who had a payment to make in New York, at a premium of 2 or 3 per cent.

With the balance of payments running heavily in favor of the United States, the rate at which pound sterling credits could be converted into dollars declined until it touched $4.48, and there were predictions that it would go to $4.25 and possibly $4.00. The British Government, however, checked the decline and restored the rate to about $4.76½, where it remained pegged until ten days ago. This was accomplished by sales of American securities which were taken over from British holders, by governmental borrowings in the United States and by shipping gold to this country. The gold consisted of current production in British territory, reserves held in England and $200,000,000 advanced in equal amounts by France and Russia.

Since April, 1917.

In this manner the exchange situation was supported until the United States entered the war. It is needless now to disguise the fact

that the Allies had about reached the end of their power to sustain the rate when the United States entered the war in April, 1917. If the credit of the United States Government had not become available the situation as regards purchases in this country would have been very serious. No doubt the obligations of the allied governments could have been sold here on the public market in considerable amounts, but not in sums which would have approached the loans that have been made by the United States Government, and unless purchases had been restricted closely to the amount of the credits, exchange rates would have broken badly. In the case of Italy, although the loans made to that government protected the official purchases from high exchange rates, private importations from this country were subject for a time to exchange charges of about 80 per cent. This means that the Italian purchaser after buying a bill of goods here at war prices, and paying transportation charges possibly equal to the cost of the goods, was obliged to pay another sum nearly equal to the original cost for the means of making payment.

Lasting Effects of the War Upon the Exchange Situation.

Although it involves a repetition of statements frequently made of late in this publication, a review of the exchange situation would be incomplete without reference to the fundamental change which results from this country having come into the position of a creditor nation. Before the war we had an average trade balance in our favor of about $500,000,000 per year, nearly all, if not quite all, of which was offset by the interest and dividends which we had to pay out upon foreign holdings of stocks, bonds and other property holdings in the United States, for freights upon our importations, insurance, tourists' expenditures, remittances to friends, etc. On the whole the account about balanced, although running in our favor in the fall and winter, when cotton and wheat were going out, and against us in the spring and summer months. Gold importations and exportations alternated, and in that connection it must be considered that the United States is one of the principal gold-producing countries.

Now the foregoing situation is changed, we assume permanently, by our having bought back the greater part of the American securities and other American property interests held abroad, so that dividends and interest payments to foreign holders will be largely curtailed. British sales have been very large, and French holders have had an even greater pecuniary inducement to sell, as New York exchange has been at a greater premium in Paris than in London. German holdings were largely reduced by sales at the outbreak of the war and before the United States entered it, and are now being eliminated by the Alien Property Custodian, who is selling them at auction. He has reported having had a total of about $800,000,000 of German property to dispose of. Furthermore, the United States has made loans aggregating nearly $9,000,000,000 to foreign governments, and is continuing to make them. These draw five per cent. interest. Including foreign loans made on the public market and privately it is evident that the interest charges running to this country when the peace treaty is signed will aggregate over $500,000,000 per year. Possibly the capital earnings account both ways will net nearly that much to this country.

The effect of this change in the volume of regular payments running from and to us must be that not so much of our merchandise or commodity exports will apply upon financial settlements as in the past. The net difference probably will be from $600,000,000 to $800,000,000. That is to say, allowing that we continue to have a trade balance about the same as before the war, to-wit, $500,000,000, instead of its being absorbed by counter-charges, the entire amount and more will have to be paid to us in some manner. Our foreign customers, instead of merely giving us credit on account, will have to convey property of some kind to us, either by shipment to this country or title conveyance, or settle by means of promises.

The total production of gold in the world outside of the United States in 1918 was not much above $300,000,000, and under the present high costs of production the gold yield is likely to decline. Moreover, additions to our gold stocks which involve reductions elsewhere would tend to raise prices in this country above prices elsewhere, which would be unfavorable to the export trade.

The result of the situation as described will be a greater demand in other countries for exchange on the United States than in the United States for exchange on other countries, which means that exchange on the United States will be at a premium in other countries. There will not be enough to supply the demand, and buyers wanting to pay for goods and borrowers wanting to pay interest will compete for it.

"Favorable" and "Unfavorable" Exchanges.

We are accustomed to say that the exchanges are in our favor when our exports exceed our imports, and so they are in the sense that the balance is coming to us, but they are not favorable to increasing our exports. On the contrary, as soon as the balance running to a country reaches the point where exchange on that country goes to a premium, influences come into play to check its exports and stimulate its imports. In other words the laws of trade tend normally to correct a state of unbalanced trade and to maintain an equilibrium. It is said in teaching physics that nature ab-

hors a vacuum, which is one way of describing the tendency to maintain an equilibrium which runs through all natural law.

When the balances running to a country reach the point where exchange goes to a premium, purchases in that country become more costly to the extent of the premium. New York exchange is now commanding a premium of about 2½ per cent. in Canada, about 6 per cent. in England, 16 per cent. in France, 50 per cent. in Italy. Buyers of American goods in these countries must pay the American price, plus the exchange premium, plus transportation charges. As the exchange charges rise the effect is to discourage the purchase of American goods.

On the other hand the decline in value of a foreign currency in terms of the dollar will make goods priced in that currency cheaper to American buyers, and thus tend to encourage importations into this country. Thus with French exchange at a discount of 16 per cent. as compared with the dollar, an American buyer converting dollars into francs finds that the purchasing power of his money is increased 16 per cent. Or, putting it the other way, a French exporter selling goods in the United States and receiving pay in a New York bank credit, can sell that credit in Paris to some fellow-countryman at a premium of 16 per cent. If he is eager to increase his sales in the United States he can reduce his prices 16 per cent., and be made whole by the premium on exchange.

It will be seen, therefore, that when trade becomes unbalanced as ours is today, natural law tends to reduce the exports and increase the imports of the creditor country until the situation comes back into balance.

Compensating Influences.

There has been some controversy during the last year over the question whether the increased cost of imports resulting from a country's currency being below par in the exchanges was compensated in any degree by gains upon exports. Evidently this depends on whether its exports are sold at home or abroad. If, for example, at this time an Italian exporter consigns lemons to New York to be sold here for his account and receives a New York credit in payment, he will get the benefit of the premium on New York exchange; but, if on the other hand a New York dealer buys lemons in Italy, converting dollars into lire for that purpose he will get the benefit of the premium. In short, the gain is gathered in by the party who makes the conversion of dollars into lire. However, when such gains are to be made there is usually competition for them, the trade is likely to be stimulated and prices will be more or less adjusted to the conditions.

We have already seen that the premium upon New York exchange offers an inducement to foreign holders of American securities to sell them in this market, and obviously the same inducement is open to sellers of every kind of property which can be transported to this market and which has a demand here.

We have also referred to the fact that to the extent that gold is sent here in settlement of the balances, it will tend to raise prices and thus make this a favorable market to sell in, and an unfavorable market to sell from. This is another way in which the natural laws of trade exert their influence to correct an unbalanced situation and restore the normal equilibrium.

What Does Foreign "Trade" Mean?

Our merchants and producers are eager for foreign "trade," by which they usually mean that they want to sell goods abroad. In the early days of our commerce our clipper ships took out cargoes of our products and literally and directly traded them for the products of other countries, bringing home the goods thus obtained. With the development of banking facilities, arbitrage transactions, clearing methods, and the use of bills of exchange, we are apt to lose sight of the "trade" elements in the situation. Individually the exporter gets his pay in the form of a bill of exchange or draft which is cash to him, and he may overlook the fact that an exchange of products was the basis of the transaction.

We are eager to sell goods abroad, but this is upon the assumption that we will get something for them. As individuals we want cash, but a nation's sales are never made for cash, and cannot be. Cash in international trade means gold.

Gold Reserves Strictly Guarded.

This country's exports to Canada in the year 1918 aggregated about $850,000,000, and the total gold holdings of Canada are probably about $200,000,000. Our merchandise imports from Canada were about $400,000,000, so that over and above these there was a balance coming to the United States of approximately $450,000,000. All the gold there was in Canada would not have paid one-half of it. Moreover, Canada could not run the risk of having its gold reserves all drawn away, or seriously impaired, so the Government placed an embargo on exports of gold, and to hold down the trade balance also put an embargo upon importations classed as luxuries.

This, however, is no more than the United States has been doing. Before we entered the war we gained immensely by the gold movements, but after our entrance, and by reason of our loans to support the allied exchanges, the exchanges with some countries, notably Spain, Japan and South America turned against us, and gold would have been taken in considerable amounts had the Government not placed an embargo upon exports. We would not consent to have our gold reserves drawn away at

the will of others or by the currents of trade. Private trade was inconvenienced, but was obliged to submit and adjust itself. Our Government has also exercised strict control over exports and imports of merchandise.

In the same manner the governments of Great Britain and France have exercised control over the movements of gold and merchandise, and are likely to do so as long as there is danger that adverse trade balances may be a menace to their gold reserves. Whatever the inconvenience may be to trade, traders at home and abroad will have to put up with them, because it is considered of greater importance that trade shall be under control and direction, and that the gold reserves shall be conserved for the support of industry and the other vital uses, than that everybody shall have the privilege of trading as he pleases. And we cannot complain of this policy because we have followed it ourselves, and every country follows it when necessary.

Export and Import Trade Must Grow Together.

If the above statements are correct we must reach the conclusion that it is impossible for this country to go on indefinitely increasing its exports without increasing its imports. Gold settlements are out of question, and the only remaining alternative is to take securities. As a temporary expedient this is to be commended and we urge it strongly. It cannot be too often repeated or too urgently stated that our hope for foreign trade this year and in the immediate future is dependent upon our taking pay in foreign securities or promises. Our would-be customers have nothing else to give. They cannot spare gold, they cannot even send goods until they can first import raw materials, and they are still dependent upon us for quantities of food-stuffs.

But how fast will our people be ready to take foreign securities? They have not been accustomed to make investments out of the country; in fact the percentage of our people accustomed to make investments outside of their home neighborhoods is very small. Land and improvements upon it, together with local corporations, have supplied most of our investments heretofore. Moreover, American securities of all kinds are very cheap at this time. Our own government bonds, municipal bonds, railway and industrial bonds and standard stocks, are selling at low prices. American investors cannot be blamed if they prefer their home investments to outside ones upon the same basis, and the whole American list will have to rise to higher levels before foreign investments can be placed here at rates which Europe is disposed to regard as reasonable.

In this disorganized state of affairs the premiums upon New York exchange in foreign markets may be expected to rise until they either reduce exports from this country or promote the making of loans here. A high premium on New York funds will enable a foreign borrower to pay a high interest rate to obtain funds here. It holds out an inducement to borrow here, just as a foreign owner of American securities has an inducement to sell them to create credits in this market. As exchange on New York rises there is an increasing inducement to the whole world to borrow here or sell anything that can be transported to America, be it securities, manufactures, works of art or what not. The inducement will increase until between the barrier to our exports and the stimulus to loans and imports an equilibrium is found.

Is the Change to a Creditor Position a Benefit or Calamity?

This may seem like a startling question, but some of our readers are evidently so perplexed over the new situation that they do not know how to interpret it. One of them, the head of an important business, writes us to say that there must be some way of stabilizing the exchanges so that this country can go on with its exports and without increasing its imports; otherwise, he says, this change to a creditor position, instead of being an advantage, will be a calamity to the country. Apparently he has been reading arguments which convey the idea that the bankers are to blame for high exchange rates, or that the Government should support the exchanges.

It must be understood that we are discussing a permanent situation, not a temporary one. A temporary state of unbalanced trade can be handled by means of bankers' credits; that is to say, the bankers may borrow abroad and turn the proceeds over to their patrons who have bills to pay there, but unless the trade balance turns around how will the bankers' debt ever be paid? Bankers cannot go on incurring debts without any prospect of paying them. Even governments cannot do that. Moreover, whether bankers or governments can create credits in other countries by means of loans obviously depends upon the creditor countries. Thus at the present time the ability of bankers in Great Britain, France, Belgium, Italy and Germany to stabilize their currencies in relation to the dollar is dependent upon America's ability and readiness to grant credits.

The gist of the whole problem is in the fact that international debts must be paid in gold or other transportable property. We have here a case of such magnitude that gold is out of the question, and we have nothing to consider but imports of goods or securities.

Unless the creditor country is willing to receive its pay either in goods or securities it plainly has no use for the trade. Its decision means that it would rather keep its own products than export them on those terms. Exchange goes to a prohibitory premium and exports decline until the balances are no larger

than can be settled. It is idle to protest against exchange rates which merely express trade conditions. They perform a necessary function. When an individual or country cannot pay for purchases in a manner acceptable to the seller the time has come to cease buying.

Is it a calamity to a country that it is no longer obliged to export several hundred millions' worth of its products annually to pay interests on its debts, and that it is in position to receive several hundred millions' worth of products on interest account?

The Position of a Creditor.

We do not think so. In changing over from the position of a debtor country to that of a creditor, this country is in the position of an individual, who, beginning life with nothing, must give labor or the products of labor in direct exchange for everything he receives, but who later accumulates capital and then is able to live in part upon income previously earned.

This situation is more difficult to realize because it has come about so suddenly. Under ordinary conditions a generation or more would have been required to accomplish the change. It would have come about so gradually that we would have grown into it, and all adjustments would have been made as we went along. We have checked our own development and driven our productive forces to their highest capacity in order to supply the enormous exports which have accomplished this change. We have had a balance of trade in four years equal to the aggregate of twenty normal years, and the result is that we are permanently established in the creditor position.

We venture to say the position is permanent, because, barring a similar calamity which would throw us upon the resources of Europe as Western Europe was obliged to resort to us, we do not see how the position can be reversed. The interest account alone is so great that we see no prospect that the principal will be liquidated. Not that our debtors will not rapidly increase in wealth, but the problem is how can they convey property to the United States which we will want to receive. Their wealth will be in lands, houses, machinery and equipment, just as ours is. They cannot send such property across the ocean. We created these credits by sending them the products of our farms and factories, and they will be able to pay in the same manner and no other. Are we willing to receive their products?

The Foreign View.

Foreign financiers and business men, since the war is over, and the necessity for importations from the United States is no longer so imperative, have been advocating a discontinuance of governmental borrowing for the purpose of supplying exchange for private purchases. The British government in January put into force a limited embargo upon imports which touched a few American goods and brought forth some rather hasty protests from this country. The *London Times*, commenting upon these said, in part:

What the American exporters must also realize is that, on this side, a policy of restricting imports is obviously imposed on the British Government, if only because of the question of the maintainence of the sterling exchange in the United States. The more we can save here on the balance of payments to the United States, the more easily can we deal with the maintenance of the sterling exchange in New York—a matter which still remains a problem for British finance, unless the American business world itself is prepared to take more active steps to relieve us of that responsibility. In that connection it has been very interesting to note that Mr. Robert Benson, at Friday's meeting of the Merchants Trust in London, suggested that it might now be time for us to leave the American exchange to adjust itself, without our going on supporting the value of the pound sterling at $4.76½ in New York by continuing the Government borrowings of dollars, and increasing our "other debt" for that purpose, as has been done during the war.

Mr. Benson's remarks, which were delivered at the annual stockholders' meeting of the Merchants' Trust Company, of which he is chairman, include a story which has done service for similar illustrations so many times in this country that it serves to show how much these business communities have in common. He said in part:

We have been bearing the burden of maintaining the relation of the sterling standard to the dollar standard, not only up to the day when the United States came into the war, but ever since. It has been very costly borrowing dollars daily, or weekly, at 5½ per cent. in New York, wherewith to pay for all the Sterling Bills offered on London at 4.76 per pound. The committee admit that this can't last; it won't be possible (they say) indefinitely to continue to support the exchange with foreign countries by borrowing abroad.

You know "Potash and Perlmutter," and how Mawrus got into a speculation to build a tenement house, and was extricated by Abe's ingenuity and money. As time went on, Mawrus's greater adventurousness made him the richer of the two, and Abe in his turn was tempted into a great land reclamation and a sort of "welfare of the people" scheme, which drained his pockets and overdrew his account in the firm's books till he could not sleep at night, but kept walking the floor, while his wife begged him to tell her what the matter was. At last he confessed, "I keep thinking of all that money I owe to Mawrus and what he will do." So his wife said, "You come to bed, Abe, and to-morrow morning go down and tell Mawrus, and let *him* walk the floor."

A point often arises in the relations of debtor to creditor when it is the creditor, and not the debtor, who is on the anxious bench. I think that is the case now in our relations with the United States. At any rate, I am satisfied that it is quite as much the interest of the United States to-day to maintain the relation of dollars to sterling as it is ours to maintain the relation of sterling to dollars, and it is about time to leave exchange to adjust itself.

It will probably be a shock and an object-lesson to both parties if the American exchange were to go to $4 per pound for a while. In all probability the immediate result of withdrawing our costly support of it will be that Americans will be able to buy everything from us cheaper for a while in dollars, while we shall be forced to economize because Amer-

ican goods will cost more. Thus we shall begin to get out of debt and put in train the restoration of the sterling standard.

Obviously both countries are best served by a normal exchange rate. The fall of sterling will make American products cost more in England, and tend to curtail British purchases in this country. We will suffer to the extent that they are curtailed and the consumers over there will suffer upon what they must continue to buy. On the other hand, as Mr. Benson says, the effect will be to make British goods cheaper to American buyers and thus promote imports to this market.

It does not seem probable that anything will be done to improve exchange relations between London and New York except as loans are made here for that purpose, or as Americans may make investments abroad and use London credits for that purpose. One effect will be to make it advantageous for American manufacturers to establish branch establishments in other countries for filling foreign orders. They can send patterns and machinery for duplicating American manufactures, and supply goods from countries which are not under the disadvantage of a high exchange rate.

The Financial Minister of Germany, observing the situation, says that inducements will be offered to American capital to operate in Germany, taking advantage of the low German exchange rate to transfer capital to that country.

What of Our Future Policy?

The more this situation is pondered over the clearer it will be that the lesson it carries is one of mutual trade interests. The best results will be obtained for all if the trade of the world is on a fairly balanced and stable basis, so that the industries of every country are fully employed. The final result to be desired is that both production and consumption shall be on the largest possible scale the world over, for that will mean widely distributed prosperity and a high standard of living for all peoples. Production and consumption everywhere rise and fall together. The purchasing power of every country is in its own powers of production, and no people are able to buy the products of others unless they can sell their own.

We are all familiar with those mutual interests in our home trade. The manufacturers and merchants of our northern states who have a good trade in the cotton-growing states are well aware that unless there is a good crop of cotton and a good demand and fair price for the staple at home and abroad their trade will suffer. In other words, the South pays for its purchases with cotton, and will not buy much if it does not have a fair market for its product. The trade of the whole world is thus mutually dependent.

Are we recognizing this fact in our present planning, or taking account of the changed relation in which we stand by reason of our newly-acquired position as a creditor country? Our Commercial Congresses and Trade Conventions are planning for a great increase of our exports, and at the same time for more complete industrial independence so far as our own consumption is concerned. At the sessions of the United States Chamber of Commerce at Atlantic City in November, lists were given of 470 articles which in the past we have been accustomed to import, but which it was said we would henceforth make for ourselves and in many instances be able to export on a competitive basis. The important item of shipping charges, which we have heretofore had to pay to foreign ship-owners, will be reduced or eliminated by the earnings of our new merchant fleet. A revision of the tariff is promised, also, for the purpose of reducing the importations of foreign goods.

This discussion is not for the purpose of taking issue specifically with any of these proposals. Every one of them is commendable, standing by itself, but we may as well recognize, and the sooner the better, that there is a limit to the policy of doing everything for ourselves and at the same time increasing our foreign trade.

We are making no calculations upon how other countries will make payments to us, and the exchange situation shows that this side of the situation cannot be ignored. If we proceed to raise customs duties to reduce importations of any kind which we are now receiving, there will be further advances in exchange rates against us, making exportations more difficult. A very practical question of policy confronts the country and presses for a decision. Shall we give up trying to increase our exports, or shall we consent to an increase of imports, and if the latter, of what kinds?

The Question of Imports.

There will be extremists upon every side of this question. Some will argue for a policy of what they call complete independence, or in other words, isolation, making ourselves self-contained and self-sufficient, regardless of the advantages to be gained by trade with other countries, and ignoring the fact that our superiority in some lines of production makes it profitable for us to trade with others. On the other hand some will argue in favor of complete freedom of trade, regardless of the disturbing effects which may follow upon a radical change in conditions heretofore maintained. Business men are usually opposed to sudden and radical changes, and in this instance probably will place a high value upon permanency as an important factor in our determination of a general policy. The most uninviting prospect to the business community is that of frequent changes in foreign policy.

It is scarcely conceivable that the business men of the United States will be content with a policy which confines them at home. The industries which are able to make their way in

world markets will want a fair opportunity to get into them, and the spirit of our people is likely to develop our policy in that direction rather than in the opposite way. The practical sense of our people doubtless will prompt them to safeguard the great essential industries of the country, as in the past, but perhaps by more scientific methods.

The natural course of evolution as a country develops diversified industries is to protect and promote those in which labor is the more important factor and which are capable of unlimited development, and to open the trade door to raw materials, foodstuffs and other necessaries of life. It is usually regarded as good policy for a country with a great industrial population to exchange its finished products for the raw materials of other countries. The natural supply of raw materials in any country is limited, and the country is depleting its wealth as that supply is used up. This is true as to the native fertility in the soil, which can be replaced only by careful husbandry and is not replaced until higher prices to the consuming population afford compensation.

Our Relations With South America.

Great hopes are being entertained of larger trade with the other countries of this hemisphere, but their only means of payment are in the raw materials and natural products. We cannot hope to deal with them unless we take what they have to offer.

Over the question whether we shall trade on that basis differences of opinion undoubtedly exist, and the issue is entitled to the most careful attention. It should be considered with a view to the future, taking account of our rapidly growing population and the steady rise in recent years of foodstuffs and raw materials. We must recognize that this is no longer a new country with great areas of cheap lands and undeveloped resources, but that the average value of all our farming lands, exclusive of improvements, advanced in value 108 per cent. between the census year 1899 and 1909, or more than 10 per cent. per annum for the period. It is an economic question which ought to be settled with regard to the welfare of the masses of the people, and not as a matter of partisan politics. Our own purpose in this presentation is simply to point out the fundamental facts of the trade situation.

Bond Market for March.

The bond market during March, as evidenced by sales on the exchanges, has shown a substantial volume of business. The general average of prices is slightly lower at the end than at the beginning of the month. It is natural to expect a small decline in demand for bonds as the Fifth Liberty Loan campaign approaches. All our people wish to be ready to do their full share in making that loan a real success. After the successes of the first four government war loans, the people of this country should put forth an extra effort to make the last big financial undertaking of the United States in this war the most successful of all.

The Liberty issues have declined a fraction of a point, except the First converted 4's and the Second 4's, the two issues of which the conversion privilege was reopened in the last Government bond bill. However, good tone exists in United States Government bonds at the end of the month, with prices about ¼ of 1% above the low of the month. There is a noticeable demand for Federal Farm Land Bank bonds on account of the tax exempt provisions.

Foreign Bonds.

The State of Connecticut has enacted a law which permits its savings banks to invest up to 10% of their deposits and surplus in the direct obligations, with a fixed maturity of the governments of the Kingdom of Great Britain and Ireland, the French Republic, the Dominion of Canada or any of the provinces of Canada. Canadian Government and provincial bonds and many Canadian municipal bonds are already legal investments for savings banks in the State of New Hampshire. Vermont also permits its savings banks to invest in all bonds of the Dominion of Canada and provinces, without limitation. This movement is a most significant indication of the growing recognition of the importance and soundness of well chosen foreign securities. The investors of the United States, both institutional and individual, can render a real service to American business by buying carefully investigated foreign government and corporation bonds. Such investments will help to maintain our foreign trade, keep our factories running and labor well employed. The market for foreign securities in the New York market has declined somewhat during the last part of the month, probably in sympathy with the withdrawal of foreign government support to their exchange rates.

Arrangements have been made to provide for the temporary financial needs of the railroads until Congress convenes and appropriates funds for the use of the Railroad Administration. The Director General of Railroads has announced that the Railroad Administration will issue its certificates of indebtedness to the railroad corporations for amounts due on account of rentals and other transactions arising out of Federal control. The War Finance Corporation has announced in turn that it is prepared to receive applications from the railroads for their April 1 requirements on the security of these certificates of indebtedness issued by the Director General. At the close of the month announcement is made that an issue of War Finance Corporation bonds, secured by the certificates of indebtedness, will be sold in the near future. The Erie Railroad Company has offered the holders of its $15,000,000 notes, maturing April 1, 1919, the privilege of taking new three-year 6% collateral notes at 98.

The War Finance Corporation has agreed to take that portion of the new notes which are not taken by the holders of the maturing notes.

Important municipal offerings in March included $8,000,000 City of Philadelphia 30-year 4½% bonds, sold by the city at 100.61 and publicly offered by a syndicate at 101¾, to yield about 4.40%. The last previous issue of Philadelphia bonds was sold in November, 1918, when the cost to the city was 4.329%. The issue was offered to the public on a 4.25% basis. Several municipal issues have been offered and well taken. The policy of states and cities to make public improvements during this period of readjustment in general business is the cause of a greater number of new bond issues of this class in the present market.

The following were the most important offerings during the month:

$12,000,000 American Can Company 6% Notes due in 6, 7, 8 and 9 months on a 6% discount basis.
1,800,000 Autocar Company 6% Bonds, due 1920-1925 at prices to yield 6% to 6½%.
3,000,000 Baltimore & Ohio R. R. 6% Bonds, due 1924 at 97½ and interest, yielding 6.60%.
1,000,000 Blackstone Valley Gas & Electric Co. 5% Bonds, due 1939 at 92½ and interest, yielding 5.63%.
1,400,000 Charcoal Iron Co. of America 7% Debenture Notes, due 1919-1924 at prices to yield 7% to 7¼%.
6,070,000 Chicago, St. Paul, Minneapolis & Omaha Ry. 6% Bonds, due 1930 at 106¼ and interest, yield 5¼%.
1,000,000 Cincinnati Traction Co. 6% Equipment Trust Cert., due 1919-1929, at prices to yield 6% to 6.25%.
600,000 Commonwealth Public Service Co. 6% Notes, due 1921-1922, at prices to yield 7.50%.
5,000,000 Consolidated Gas Electric Light & Power Co. of Baltimore 7% Notes, due 1922, at 100 and interest, yielding 7%.
2,500,000 Eastern Massachusetts Street Ry. 6% Bonds, due 1920-1929, at 100 and interest, yielding 6%.
1,000,000 Farm Loan 5% Bonds, due 1939, at 102 and interest, yielding 4½%.
1,500,000 Galveston - Houston Electric Co. 7% Notes, due 1922, at 98½ and interest, yielding over 7.55%.
1,000,000 Gera Mills 6% Sinking Fund Bonds, due 1924, at 97½ and interest, yielding about 6⅝%.
11,000,000 Laclede Gas Light Co. 7% Bonds, due 1929, at 100 and interest, yielding 7%.
700,000 Merchants' Heat & Light Co. (Indianapolis) 7% Notes, due 1920, at 99½ and interest, yielding 7½%.
7,800,000 Michigan Central R. R. Equipment Trust of 1917 Cert., due 1920-1932, at prices to yield 5½% to 5⅞%.
7,410,000 New York Central R. R. Equipment Trust of 1917 Cert., due 1920-1932, at prices to yield 5½% to 5⅞%.
4,135,000 New York, Chicago & St. Louis R. R. 6% Bonds, due 1931, at 94 and interest, yielding about 6¾%.
1,980,000 Niagara, Lockport & Ontario Power Co. 6% Bonds, due 1958, at 94 and interest, yielding about 6.40%.
1,800,000 Palace Hotel Co. of San Francisco 6% Bonds, due 1928, at 100 and interest, yielding 6%.
2,000,000 Ralston Purina Company 6% Notes, due 1921-1925, at prices to yield 6.75%.
1,850,000 San Antonio Belt & Terminal Ry. Co. 6% Notes, due 1924, at 98¾ and interest, yielding 6.30%.

Municipal.

4,452,000 Cleveland (Ohio) 5% City Bonds, on a 4.70% basis.
1,500,000 Cleveland (Ohio) 5% School District Bonds, on a 4.70% basis.
331,400 Flint (Mich.) 5% Bonds, on a 4.70% basis.
304,000 Franklin County (Ohio) 5% Bonds, on a 4.70% basis.
1,008,000 Minneapolis (Minn.) 4%, 4½% and 5% Bonds, on a 4.70% basis.
8,000,000 Philadelphia (Pa.) 4½% Bonds, on a 4.40% basis.
1,000,000 Salt Lake City (Utah) 4% Bonds, on a 4.70% basis.
8,000,000 State of Louisiana Port Commission 5% Bonds, on a 5% basis.
3,000,000 State of South Dakota 5% Bonds, on a 4.70% basis.
200,000 South Bend (Ind.) 4¾% Bonds, on a 4.50% basis.
450,000 Syracuse (N. Y.) 4½% Bonds, on a 4.35% basis.

British Investments.

We gave last month an interesting extract from the address of Mr. Robert Fleming, Chairman of the Metropolitan Trust Company, London, to his stockholders at the annual meeting, and below we are giving one from the address of Mr. Robert Benson, Chairman of the Merchants Trust Company, another British investment corporation, in which he tells something of the experience of that Company in making investments in various fields. These statements are interesting for the comments which these bankers make upon the entrance of the United States into the world field, and also for the illustration they give of the service and risks of capital in developing the world's dormant resources for the good of mankind. We lay emphasis upon the latter demonstration, because in all the current discussion about social conditions and the relations of capital and labor, there is usually no hint that capital serves anybody but its owners. The idea that capital employed in productive industry is rendering service to the public rather than to its owners rarely appears, and yet this is one of the most vital facts in the whole controversy.

Mr. Benson, addressing the stockholders of the Merchants Trust Company at their annual meeting, March 5th last, said, in part:

The Merchants Trust was formed 30 years ago to distribute the risk of investments of capital all over the world. A people's foreign investments, as the ex-Kaiser said 10 years or more ago, are a war-chest better than fine gold. Thus our capital, exported originally in the form of products of British industry, for which we took deferred payment (payment in bonds and shares instead of cash), strengthened the position of Great Britain as the creditor country;

the annual payment of interest by the foreign debtor contributed in peace time to pay for necessaries of civilized life produced abroad, and, finally, the bonds themselves served as acceptable payment abroad for food and munitions wherewith to win the war.

"The International Race for Reconstruction."

Far away the most profitable locality has been the United States. With the best will in the world to invest at home or in the Colonies, we never succeeded in making money in either of those fields. Whether it was our own fault, or the fault of the field, is a difficult question. Perhaps we were neither lucky nor clever enough, and our experience may not be borne out by that of others; or, possibly, political and economic conditions contributed to loss. Statistics of production per wage earner per annum and the relative horse power employed in Great Britain compared with the United States show that industrial production per head is low in Britain and is mainly responsible for low wages; while high production per head has made possible high wages in the United States. The same tale is told if you compare the statistics of tons of coal produced per annum per person employed in the United Kingdom, United States, Australia, New Zealand, and Canada. The average for the last 26 years is about 270 tons in the United Kingdom, 550 tons in the United States, 440 tons in Australia, 450 tons in New Zealand, and 430 tons in Canada. One explanation is that coal is harder to get in the United Kingdom. But that is not a sufficient explanation, because the tons produced in the United Kingdom show no increase from 1886 to 1912, while elsewhere they show a large increase. The statistics for 26 trades, as well as for coal, are to be found in Dr. Gray's "Eclipse or Empire?" Nisbet and Co., 1916), pp. 148-50, they are a blow to our complacency, and a spur to British pride not to be beaten in the international race for reconstruction. The older one gets the more one feels that it is necessary not merely to work to live, but to live to work.

Talking things over some years ago with an economist and Cabinet Minister, at a moment when we were smarting under losses incurred in trying to assist the development of electrical power supply and the manufacture of electrical machinery, I ventured to assert that it was hardly possible to find a new enterprise in this country to put money into without the producer being sacrificed to the consumer, or else being undersold by the big foreign manufacturer. In the one case I gave him the example of power supply in the London area, and in the other a large engineering establishment in the north. He retorted that there were hundreds of little industries fighting their way upward with good management and surviving. Probably both statements were too extreme; but they are not inconsistent. The fact remains that the Merchants Trust has lost capital hitherto on the average at home and in the Colonies and on the Continent of Europe, but has more than made it up in the United States, in the River Plate and elsewhere.

Great Britain's Changed Position.

The former position of Great Britain as the great creditor nation is challenged. America is now a creditor nation, and we owe her about £1,000,000,000, mostly at short notice. Simultaneously the position of the Merchants Trust is changed. In our endeavor to assist to our utmost capacity to win the war the Merchants Trust sold, or lent, to the Government £1,000,000 of securities. We sold such of our American securities as paid a comparatively small rate of interest, and now hold instead £515,000 War Loan and War Bonds, besides some £485,000 of dollar securities which pay higher rates of interest and are lent to the Government. These and other dollar securities, which the Government did not want to buy or borrow, form to-day a hedge against the risk of a fall in sterling exchange. Much as we desire to help to restore the creditor position of the nation by investing money where we have heretofore received the best return—namely, in the United States—the probability is that the business of investment in that country has come to an end for a time; indeed, if America desires to collect the principal and interest of the debt that Europe already owes her she will probably have to take payment in securities, as Great Britain did when the positions were reversed after the Civil War in America, 1861-65. Our own duty now is to use our capital so as to assist in developing the productive power of Great Britain and the latent resources of the Empire.

For instance, branch railways in India, new railways and irrigation works in Egypt and Africa generally, also in Mesopotamia if it comes within the British sphere, will contribute to create wealth in those vast potential fields; among raw materials, cotton, oil, wool, rubber, iron ores are needed in greater supply; cotton production especially must be increased where it will grow successfully, and may require £10,000,000 a year for 10 years; renewals and repairs of ships and railways at home will take any amount of money; so, too, will key industries, industries captured from Germany, and economies to old industries, such as centralizing and developing the electrical power supply as proposed by the Coal Conservation Sub-Committee, whereby possibly £100,000,000 per annum may be saved. This programme will afford almost unlimited employment for British labor and brains, together with savings, past, present, and future; and the finance of it ought to present no difficulty to British banking wherever the expenditure is within the Empire, nor yet to British trust companies, whose object is to invest in good securities based upon a good enterprise. But the £100,000,000 capital of the trust companies is fully invested already. And even if it were cash, or saleable for cash, it would go but a little way to meet so vast a demand. Everything turns on our having the best possible banking system.

The Double Income-Tax Difficulty.

Another consideration will compel us to abandon the American field of investment—namely, the Amercan income-tax, except in cases where interest is payable tax free. The same difficulty of the double income-tax militates against Colonial investments. Nor, I may add, can America afford to take payment in British securities for what Great Britain owes her, and at the same time pay a British income-tax as well as the American income-tax. Reluctant as the Inland Revenue may be to lose a chance of taxing a foreigner, the price of America's co-operation in developing the estates of the Empire, speeding up production and assisting us to get out of her debt, will be that British securities held by Americans must be tax free. It is well to recognize at once that in this case the debtor really pays; for the creditor when he lends and settles the term of a loan naturally puts the tax on the borrower and demands tax-free bonds for himself. Also he will probably seek for bonds payable in dollars or sterling at his option, just as after the Civil War European lenders of money to America insisted on specific payment in gold dollars. This is a point to be remembered in the simplification and reform of the Income-Tax Acts so long overdue; so as not to warn off American capital, but to facilitate our chance of paying our debts in securites as well as in goods and services. A good banker knows well that in such cases the best way of collecting debts is to lend more. This is what Great Britain did for America during her period of reconstruction, 1865-79, when the *rôles* were reversed.

British Labor Situation.

British industry has been facing a very grave situation during the past month, pending a settlement of the threatened strike by

coal miners, railway employes and transport workers. A convention of wage-earners and employers was held on the last of February, at which a commission made up from both parties and headed by Justice Sankey was created to make an investigation. The results of the investigation have not been fully published, but it appears that at least a combined strike of the three organizations has been averted by important concessions.

The main features of the agreement with the railway employes was arrived at in January, but a misunderstanding developed over those terms which now has been adjusted, and the strike order has been rescinded. The claims of the transport workers have also been satisfied. The representatives of the miners have recommended that the concessions offered be accepted. but a vote of the unions will have to be taken. The recommendations carry a wage increase of 10 per cent.

The situation has been very critical, but because it was so there has been a very broad and earnest discussion which has no doubt been educational to all the parties. The leader of the coal miners, Mr. Smillie, planted himself squarely upon the proposition that the miners were entitled to better living conditions than they have had in the past. His questions to witnesses laid emphasis upon housing conditions, average earnings, and reverted to prophecies of disaster made by employers when wage increases or shortened hours were proposed in the past.

The witnesses representing other industries which would be unfavorably affected by higher fuel costs did not dispute that in many instances living conditions were very bad in the mining villages, but urged that they would not be bettered by any action that adversely affected the general position of British industries and reduced the demand for coal. Mining conditions vary in Great Britain as they do in this country, with the thickness of the coal veins, and there as here apparently the situation is aggravated by too much off time in average years. In other words there is too much irregularity in employment, and too many men for the work. A noteworthy statement by Mr. Sidney Webb, the Socialist writer, who served as one of the Commissioners, was that in the United States miners made £10 ($50) per week.

Conservative Labor Leaders.

A feature of the whole situation has been the conservative attitude of the recognized union leaders. They have used their influence to discourage extreme demands, and their public utterances have been characterized by ability and often by a knowledge of economic principles much above the ordinary. Mr. J. H. Thomas, head of the railway men's order, in a speech in the House of Commons explained the aggressiveness of labor at this time and at the same time gave warning against its unreasonable expectations. He said:

I frankly admit that one of the problems that we have got to face is the unfortunate belief that there is an unlimited amount of wealth in the country. (Hear, hear.) The war is largely responsible for that. It is no use disguising the fact that large numbers of the working classes, who were told a few years ago that it was impossible to concede a few millions for old-age pensions or social reform, and who found money poured lavishly without stint during the war, have got the impression that there is an unlimited amount of wealth in the country. I know, and know well, that Russia is the best answer to that fallacy. I know that normal wages are to-day a hundred times higher in some parts of Russia than they were three years ago. The spending power of those wages, however, is even less than it was before. So far as we, the workers, are concerned, it is not the amount of money we receive that matters, but the spending capacity of the money. Recognizing that, I want the Government to keep clearly in mind that the present basis of currency, the artificial nature of the currency, and its present inflation are all things that must tend to unrest, because, if the working classes get an advance of 5s. to-day, in a few weeks' time they find the cost of living going up 6s., and so they get it into their hands with someone always waiting to take advantage of the situation.

The Miners' Plea.

Mr. Smillie, head of the miners' union, addressing the Prime Minister in presenting the demands of the union, said, in part:

MR. SMILLIE.—Up to the present time the other industries and those engaged in them, and, I fear, the Government, have not cared to inquire, nor to consider, what the conditions of living or the lives of the producers in that important raw material have been. I well remember the time when this country was establishing its pre-eminence in the production of iron ships. I remember the mining community working at wages of 18s., 19s., and 20s. per week, with the men going to the pit five and six days per week, and in some cases going without food, and their children without food. I happened to be one of them; and when I am accused in the Press this week of evidently caring more for the mine workers in the little village in which I live than for the community, well, though it is hardly true, and knowing the condition of the people, as I do, it is certainly not a selfish thing to endeavor to place your own class, the people with whom you have been associated all your life, on a footing that will enable them to live in decency, and that their children will not be going without boots, without decent clothes, and be underfed. Now that was the position when coal was being put into the trucks on the railway sidings in some cases at 4s. and 4s. 6d. a ton. But the men engaged in the other industries, in the steel and shipping industries, were receiving far higher rates of wages, two or three times the rates of wages that our people were receiving underground. Now I am not prepared to admit the justice of a position of that kind, and I am not prepared to admit that we should go on living under unnatural conditions merely to provide cheap raw material for the manufacture of our industry, and I do not think the Government will claim that we ought.

The PRIME MINISTER.—I agree.

MR. SMILLIE.—It is true that we are asking for a higher standard of life for our people; and we have received very considerable encouragement in that direction from your own published speeches; that you think the time has come when you consider every effort ought to be made to raise the standard of living in this country.

The PRIME MINISTER.—I quite agree.

Mr. Smillie.—But, mark you, we have put forward that claim not because we believe that this is all to which we are entitled. The mineowners have always told us, and you tell us now, if you hand the mines back to them for free competition amongst each other, that we have no right to a voice in the working conditions in the mines—no voice on the commercial side at all. They say:—"We invested our money in those mines and they are ours, you are merely our hands." Now I say we invest our lives in those mines, which is of greater importance than the capital of the employer, and to that extent I have a right to say as to what the conditions shall be, not merely the working conditions, but we are entitled to have some information on the commercial side of the thing also. I believe, Sir, that you have the data at hand, if you cared to use them, to be able to give us a reply on the wages question as to whether or not the claim which we put forward is unreasonable.

Lloyd George's Plea.

The Prime Minister, Lloyd George, in pleading for time for an impartial investigation turned the advocacy of a League of Nations by the labor organizations to his own support in an effective manner. Replying to Mr. Smillie and the miners' committee he said, in part:

I have been recently engaged in Paris, and I gave a great deal of time to it, in trying to set up machinery for settling disputes between nations, without either force or the means of force. I have been assured, and I think my information is accurate, that the working classes of all lands were behind that demand for a League of Nations, for a sane settlement of disputes instead of an insane one, for the substitution of reason for force, and conciliation for conquest. I am glad to be able to say that we have set up machinery, and I hope strikes between nations are over, with all the terrible consequences which were witnessed during the last few years. I hope that has gone for ever. Is it conceivable that, having set up machinery for substituting sane means of settling disputes, in place of one party forcing the other through distress into surrender, having set up that machinery between nations, and the workmen of the world all demanding it, is it conceivable that that area of conflict is to be transferred to industry?

We all know what this is going to mean; and if I point it out, believe me I am pointing it out in no sense of menace, because we must all have been thinking it out, and as humane men we want to avert it; and therefore, my suggestion is that we should introduce into the industrial world those methods of conciliation which you have all been advocates of, and none more, if I may say so, than your president in the international world; and that we should here set up a tribunal, first of all to examine the facts. That is all I want. If you are right, that 30 per cent. advance might be given to the miners now, instantly, without giving time to industry to adjust itself to it —if you are right in saying that a 30 per cent. advance could be given to miners on their wages, that you could reduce their hours of labour from eight to six at that increased rate, without hurting other workmen who are equally meritorious in other trades equally essential to the community, without bringing starvation to the lot of other workmen—if you are right, surely there must be a means of finding that out besides trying to starve each other out. There must be.

Human nature is not so bankrupt in resources and sense and conscience as all that; and, therefore, I beg you, and I am not ashamed to beg you, as head of the Government, to agree with us in the setting up of a Commission that will investigate these facts, with an imperative order for them to report by March 31, which is only a fortnight later than your own time; that they should also investigate all those other conditions to which you attach so much importance, and to which I attach importance as well—mining royalties and their effects upon the industry, profiteering and its effects upon the industry, whether you could best conduct your industry by means of joint control, nationalization, or any other method in the interests not merely of the miners, but of the whole community; because, after all, the coal is not there for the interests of any industry, it is there for the benefit of the whole nation.

Lloyd George's statement of the British railway situation is also most interesting, showing how there, as in the United States the increased wages to employes come back upon the traffic, to be borne by the community, and in the last analysis, by the consumers of goods, of whom the greater number are the workers themselves. His treatment of shorter hours as a remedy for unemployment is equally to the point. He said:

It is a great mistake to imagine that there is an inexhaustible reservoir of profit that you can dip into at any moment without burdening any trade or business. There is no better illustration than the railways. At the beginning of the war the railways of this country were making a profit of £50,000,000, ($250,000,000,) which produced a dividend of under 4 per cent. That is not a very extravagant return for capital, a great deal of it invested by small people. It is not invested in big sums as a rule. What has happened since the war? Owing to increases in one thing or another, in wages, curtailment of the hours of labour, and increased cost of material, we have added 90 million pounds ($450,000,000) to the cost of running the railways. Where is the fund of profit there? It is all gone. Who is to make it up? The first-class passenger will not produce much if you double or treble his fare. Every railway manager knows that. We have to get it from the consumer in some way or other—from your third-class passenger, your goods, your food. That is the only way to get it. I only want every section of the community, when it puts forward demands, to bear these essential facts in mind, that all these demands are passed on to someone else, and that there is a stage where if you pass them on they crowd on top of some poor industry that can barely march now, and it is crushed. That means unemployment for somebody.

There is a theory that one way of providing employment is by reducing the hours of labour, so that there will be enough work to go round at the same wages. Reduce the hours of labour to what is legitimate and what is fair and possible, but to reduce them merely in order to create employment for exactly the same wage is the one way to make unemployment over the whole country. I should have thought that that stood to reason; it is really so elementary. It increases the cost of a particular commodity which a trade is producing, that commodity is an ingredient in something else; if you put up the price you diminish the purchasing capacity, and if you diminish the purchasing capacity you diminish employment. Not only that, but, as I have pointed out, you destroy the overseas trade upon which this country depends more than any country in the world. I would despair if the working classes of the country did not realize that elementary fundamental principle.

All of which is just as true and pertinent in the United States as it is in England.

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